May 27, 2022
2021-003

Honorable Betty T. Yee, State Controller
Office of the State Controller
300 Capitol Mall, Suite 1850
Sacramento, California 95814

Dear Controller Yee:

The California State Auditor's Office presents its Independent Auditor's Report on the State Controller's Office (SCO) *Schedule of Pensionable Compensation and Schedule of Pension Amounts* for the State Miscellaneous, State Industrial, State Safety, and State Peace Officers and Firefighters plans of the State of California, as of and for the year ended June 30, 2020. The schedules and related notes provide certain state entities and their auditors with information related to the Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and are presented in conformity with accounting principles generally accepted in the United States of America.

Our report is intended solely for the parties included in the restriction on use paragraph contained in the Independent Auditor's Report and is not intended to be and should not be used by anyone other than these specified parties.

We conducted the audit under the authority of Government Code section 8546.4.

Respectfully submitted,

Linus Li

LINUS LI, CPA
Acting Deputy State Auditor

Independent Auditor's Report

THE LEGISLATURE OF THE STATE OF CALIFORNIA
AND THE CALIFORNIA STATE CONTROLLER'S OFFICE

We have audited the accompanying Schedule of Pensionable Compensation by Plan for the State Miscellaneous, State Industrial, State Safety, and State Peace Officers and Firefighters plans (the plans) of the State of California, for the year ended June 30, 2020, and the related notes. We have also audited the net pension liability, deferred outflows of resources, deferred inflows of resources, and total pension expense included in the accompanying Schedule of Pension Amounts by Plan as of and for the year ended June 30, 2020, and the related notes.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on the schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the pensionable compensation, net pension liability, deferred outflows of resources, deferred inflows of resources, and total pension expense for the plans as of and for the year ended June 30, 2020, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America, the financial statements of the State of California as of and for the year ended June 30, 2020. Our report, dated January 26, 2022, expressed unmodified opinions for the Governmental Activities, the Aggregate Discretely Presented Component Units, each major fund except for the Federal Fund and Unemployment Programs Fund, and the Aggregate Remaining Fund Information. However, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Unemployment Programs Fund. Accordingly, we did not express an opinion on those financial statements. Moreover, the lack of sufficient appropriate audit evidence resulted in qualified opinions for the financial statements of the Business-Type Activities and the Federal Fund.

Restriction on Use

Our report is intended solely for the information and use of the California State Controller's Office, the California Public Employees' Retirement System, the plans' employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2022, on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the fiscal year ended June 30, 2020. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of California's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of California's internal control over financial reporting and compliance.

CALIFORNIA STATE AUDITOR

LINUS LI, CPA
Acting Deputy State Auditor

Sacramento, California

May 25, 2022

State of California

Agent Multiple-Employer Defined Benefit Pension Plans

Schedule of Pensionable Compensation and Schedule of Pension Amounts

For the Fiscal Year Ended June 30, 2020

Prepared by
The Office of the State Controller

BETTY T. YEE

California State Controller's Office

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Introductory Section

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BETTY T. YEE

California State Controller

May 27, 2022

To State Entities and their External Auditors:

I am pleased to submit the report on the *Schedule of Pensionable Compensation by Plan and the Schedule of Pension Amounts by Plan* (schedules) for the following agent multiple-employer plans of the State of California: State Miscellaneous, State Industrial, State Safety, and State Peace Officers and Firefighters, for the fiscal year ended June 30, 2020. This report provides certain state entities and their external auditors with supporting information related to Governmental Accounting Standards Board Statement No. 68 (GASB No. 68), *Accounting and Financial Reporting for Pensions*.

The State Controller's Office is responsible for the preparation and fair presentation of the schedules in accordance with accounting principles generally accepted in the United States of America. The report provides users with reasonable assurance that the pension information presented in the schedules is fairly stated in accordance with GASB No. 68.

The information contained in this report is solely for the use of certain state entities and their external auditors and is not intended to be, and should not be, used by anyone other than those specified parties. However, under the Brown Act, the report is a matter of public record.

Sincerely,

Original signed by

BETTY T. YEE

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Independent Auditor's Opinion

Independent Auditor's Report

THE LEGISLATURE OF THE STATE OF CALIFORNIA
AND THE CALIFORNIA STATE CONTROLLER'S OFFICE

We have audited the accompanying Schedule of Pensionable Compensation by Plan for the State Miscellaneous, State Industrial, State Safety, and State Peace Officers and Firefighters plans (the plans) of the State of California, for the year ended June 30, 2020, and the related notes. We have also audited the net pension liability, deferred outflows of resources, deferred inflows of resources, and total pension expense included in the accompanying Schedule of Pension Amounts by Plan as of and for the year ended June 30, 2020, and the related notes.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on the schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the pensionable compensation, net pension liability, deferred outflows of resources, deferred inflows of resources, and total pension expense for the plans as of and for the year ended June 30, 2020, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America, the financial statements of the State of California as of and for the year ended June 30, 2020. Our report, dated January 26, 2022, expressed unmodified opinions for the Governmental Activities, the Aggregate Discretely Presented Component Units, each major fund except for the Federal Fund and Unemployment Programs Fund, and the Aggregate Remaining Fund Information. However, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Unemployment Programs Fund. Accordingly, we did not express an opinion on those financial statements. Moreover, the lack of sufficient appropriate audit evidence resulted in qualified opinions for the financial statements of the Business-Type Activities and the Federal Fund.

Restriction on Use

Our report is intended solely for the information and use of the California State Controller's Office, the California Public Employees' Retirement System, the plans' employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2022, on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the fiscal year ended June 30, 2020. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of California's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of California's internal control over financial reporting and compliance.

CALIFORNIA STATE AUDITOR

LINUS LI, CPA
Acting Deputy State Auditor

Sacramento, California

May 25, 2022

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Schedules by Plan

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Schedule of Pensionable Compensation by Plan

For the Year Ended June 30, 2020
(amounts in thousands)

Plans	Pensionable Compensation
State Miscellaneous (Tiers 1 & 2)	$ 13,579,610
State Industrial	$ 765,840
State Safety	$ 2,566,403
State Peace Officers and Firefighters	$ 3,904,615

Schedule of Pension Amounts by Plan

As of and For the Year Ended June 30, 2020
(amounts in thousands)

	Plans	
	State Miscellaneous	**State Industrial**
Net Pension Liability, as of June 30, 2019	$ 33,635,295	$ 1,011,220
Net Pension Liability, as of June 30, 2020	34,761,659	1,015,631
Increase (decrease) in the Net Pension Liability	**$ 1,126,364**	**$ 4,411**
Deferred Outflows of Resources: [1, 2]		
Differences between expected and actual experience [3]	$ 1,726,305	$ 62,900
Changes in assumptions [3]	—	—
Net differences between projected and actual earnings on pension plan investments [4]	856,981	41,156
Total Deferred Outflows of Resources	**$ 2,583,286**	**$ 104,056**
Deferred Inflows of Resources: [2]		
Differences between expected and actual experience [3]	$ —	$ 2,243
Changes in assumptions [3]	369,588	6,360
Net differences between projected and actual earnings on pension plan investments [4]	—	—
Total Deferred Inflows of Resources	**$ 369,588**	**$ 8,603**
Total Pension Expense	**$ 6,050,324**	**$ 226,691**

[1] This schedule does not include deferred outflows of resources for employer contributions made subsequent to the measurement date.

[2] This schedule does not include deferred outflows and inflows of resources for changes in the employers' proportionate share based on pensionable compensation.

[3] Deferred outflows and inflows of resources related to differences between expected and actual experience and changes in assumptions are amortized over closed periods equal to the average expected remaining service lives of all plan members which are 4.2 years for the State Miscellaneous, 3.4 years for State Industrial, 4.5 years for State Safety, and 4.8 years for State Peace Officers and Firefighters.

[4] Deferred outflows and inflows of resources related to differences between projected and actual earnings on pension plan investments are netted and amortized over a closed 5-year period.

The accompanying notes are an integral part of the Schedules.

	State Safety		State Peace Officers and Firefighters
$	2,824,667	$	14,746,446
	2,828,194		14,082,026
$	**3,527**	**$**	**(664,420)**
$	141,161	$	677,326
	46,966		602,019
	126,449		361,526
$	**314,576**	**$**	**1,640,871**
$	13,837	$	66,122
	11,778		10,041
	—		—
$	**25,615**	**$**	**76,163**
$	**745,198**	**$**	**2,601,691**

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Notes to the Schedules

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Notes to the Schedules

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Schedule of Pensionable Compensation by Plan and the Schedule of Pension Amounts by Plan (Schedules) present selected information for the agent multiple-employer defined benefit pension plans of the State of California, which include the State Miscellaneous Plan, State Industrial Plan, State Safety Plan, and State Peace Officers and Firefighters Plan (Plans). The Schedules are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Such preparation requires the California State Controller's Office to make a number of estimates and assumptions related to the reported amounts and disclosures. Due to the inherent nature of these estimates, actual results could differ.

The Schedule of Pension Amounts by Plan does not include the following entity-specific pension amounts that may need to be recognized in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68: (a) deferred outflows of resources for employer contributions made subsequent to the measurement date, and (b) deferred outflows and inflows of resources for changes in the employers' proportionate share based on pensionable compensation.

NOTE 2: PENSIONABLE COMPENSATION

The Schedule of Pensionable Compensation by Plan is prepared to provide state entities with the total pensionable compensation amounts. These amounts are used to calculate each state entity's proportionate share of pension amounts. The Schedule of Pensionable Compensation by Plan and the Schedule of Pension Amounts by Plan have the same measurement period of July 1, 2019, through June 30, 2020.

NOTE 3: NET PENSION LIABILITY

The following table shows the components of the net pension liability for the Plans as of June 30, 2020 (amounts in thousands):

Net Pension Liability Components	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters
Total Pension Liability	$ 122,015,859	$ 5,108,928	$ 15,112,709	$ 52,516,967
Less: Fiduciary Net Position	(87,254,200)	(4,093,297)	(12,284,515)	(38,434,941)
Net Pension Liability	**$ 34,761,659**	**$ 1,015,631**	**$ 2,828,194**	**$ 14,082,026**

Detailed information about each plan's fiduciary net position is available in the separately issued California Public Employees' Retirement System (CalPERS) report at www.CalPERS.ca.gov.

NOTE 4: ACTUARIAL METHODS AND ASSUMPTIONS

For the measurement period ended June 30, 2020 (measurement date), the total pension liability was determined by rolling forward the June 30, 2019 total pension liability. The June 30, 2020 total pension liabilities for the Plans were based on the following actuarial methods and assumptions:

Valuation Date:	June 30, 2019
Actuarial Cost Method:	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions	
Discount Rate:	7.15%
Inflation:	2.50%
Salary Increases:	Varies by Entry Age and Service
Investment Rate of Return:	7.15% Net of Pension Plan Investment Expenses, but without reduction for Administrative Expenses, includes Inflation
Mortality Rate Table:	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase:	The lesser of contract COLA or 2.50% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.50% thereafter

The mortality table used was developed based on CalPERS specific data. The table includes 15 years of mortality improvements using the Society of Actuaries 90% of Scale MP 2016. For more details on this table, please refer to the 2017 CalPERS Experience Study and Review of Actuarial Assumptions report (Experience Study).

All other actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from 1997 to 2015, including updates to salary increase, mortality, and retirement rates. The Experience Study report is available at www.CalPERS.ca.gov.

NOTE 5: DISCOUNT RATE

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability. CalPERS' approach for the cash flow projections is presented in the GASB 67 and 68 Crossover Testing Report, which may be obtained from the CalPERS' website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for

cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The following table reflects expected real rate of return by asset class:

Asset Class	Policy Target Allocation	Real Return Years 1-10	Real Return Years 11+
Global Equity	50.0 %	4.80 %	5.98 %
Fixed Income	28.0	1.00	2.62
Inflation Assets	—	0.77	1.81
Private Equity	8.0	6.30	7.23
Real Assets	13.0	3.75	4.93
Liquidity	1.0	—	(0.92)

The Real Return Years 1-10 used an expected inflation rate of 2.00% for this period. The Real Return Years 11+ used an expected inflation rate of 2.92% for this period.

NOTE 6: PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES, AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

The table below presents deferred outflows and inflows of resources as of June 30, 2020. Deferred outflows and inflows of resources are recognized for the difference between expected and actual experience. Deferred outflows and inflows of resources are recognized for the change in assumptions. Deferred outflows of resources due to employer contributions made subsequent to the measurement date are not presented in the table below. Net deferred outflows of resources are recognized for the aggregate difference (positive and negative) between projected and actual earnings on pension plan investments arising in different measurement periods. Deferred outflows and inflows of resources for changes in the employers' proportionate share of pensionable compensation are not presented in the table below (amounts in thousands):

Description	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters
Deferred Outflows of Resources	$ 2,583,286	$ 104,056	$ 314,576	$ 1,640,871
Deferred Inflows of Resources	$ 369,588	$ 8,603	$ 25,615	$ 76,163

Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as either a debit or a (credit) in the future as follows (amounts in thousands):

Measurement Periods	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters
Year Ended June 30,				
2021	$ 196,727	$ 19,077	$ 51,249	$ 586,111
2022	929,530	35,651	89,842	439,665
2023	688,965	24,069	96,274	359,106
2024	398,476	16,656	51,596	179,826
2025	—	—	—	—
Thereafter	—	—	—	—
Total	**$ 2,213,698**	**$ 95,453**	**$ 288,961**	**$ 1,564,708**

For the fiscal year ended June 30, 2020, the amounts recognized as components of pension expense for each of the Plans were as follows (amounts in thousands):

Description	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters
Service Cost	$ 2,125,738	$ 131,508	$ 553,316	$ 1,062,486
Interest on the Total Pension Liability	8,288,391	343,896	1,012,593	3,547,688
Recognized Differences between Expected and Actual Experience	684,460	35,058	22,170	193,658
Recognized Changes of Assumptions	1,080,901	19,164	146,739	496,662
Employee Contributions	(1,005,830)	(65,268)	(267,822)	(462,370)
Net Plan to Plan Resource Movement	4,213	1,036	(3,907)	(735)
Projected Earnings on Pension Plan Investments	(5,953,741)	(275,263)	(824,561)	(2,568,413)
Recognized Differences between Projected and Actual Earnings on Plan Investments	708,142	31,177	90,623	282,883
Administrative Expense	118,050	5,383	16,047	49,832
Other Miscellaneous Income	—	—	—	—
Total Pension Expense	**$ 6,050,324**	**$ 226,691**	**$ 745,198**	**$ 2,601,691**

NOTE 7: SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following table presents the net pension liability of the Plans as of the measurement date, calculated using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15%) or 1 percentage-point higher (8.15%) than the current rate (amounts in thousands):

Net Pension Liability/(Asset)	Current Rate -1%	Current Rate (7.15%)	Current Rate +1%
State Miscellaneous	$ 49,538,688	$ 34,761,659	$ 22,377,151
State Industrial	$ 1,712,630	$ 1,015,631	$ 441,194
State Safety	$ 4,818,885	$ 2,828,194	$ 1,179,870
State Peace Officers and Firefighters	$ 21,316,885	$ 14,082,026	$ 8,144,398

BETTY T. YEE

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